

The copyright © of this thesis belongs to its rightful author and/or other copyright owner. Copies can be accessed and downloaded for non-commercial or learning purposes without any charge and permission. The thesis cannot be reproduced or quoted as a whole without the permission from its rightful owner. No alteration or changes in format is allowed without permission from its rightful owner.



**THE IMPACT OF GLOBALIZATION TOWARDS
ISLAMIC BANK PERFORMANCE IN MALAYSIA**

PREMENATH A/L SUBRAMANIAM



UUM

Universiti Utara Malaysia

**MASTER OF SCIENCE (FINANCE)
UNIVERSITI UTARA MALAYSIA
August 2019**

**THE IMPACT OF GLOBALIZATION TOWARDS ISLAMIC BANK
PERFORMANCE IN MALAYSIA**

BY

PREMENATH SUBRAMANIAM



**Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia,
in Partial Fulfillment of the Requirement for the Master of Sciences (Finance)**



**Pusat Pengajian Ekonomi,
Kewangan dan Perbankan**

SCHOOL OF ECONOMICS, FINANCE, AND BANKING

Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PENYELIDIKAN

(Certification of Research Paper)

Saya, mengaku bertandatangan, memperakukan bahawa

(I, the undersigned, certified that)

PREMENATH A/L SUBRAMANIAM (822788)

Calon untuk Ijazah Sarjana

(Candidate for the degree of)

MASTER OF SCIENCE (FINANCE)

telah mengemukakan kertas penyelidikan yang bertajuk

(has presented his/her research paper of the following title)

THE IMPACT OF GLOBALIZATION TOWARDS ISLAMIC BANK PERFORMANCE IN MALAYSIA

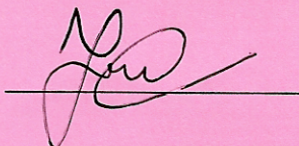
Seperti yang tercatat di muka surat tajuk dan kulit kertas penyelidikan

(as it appears on the title page and front cover of the research paper)

Bahawa kertas penyelidikan tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.

(that the research paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the dissertation).

Nama Penyelia : **ASSOC. PROF. DR. ZAEMAH BT ZAINUDDIN**
(Name of Supervisor)

Tandatangan : 
(Signature)

Tarikh : **28 AUGUST 2019**
(Date)

PERMISSION TO USE

In presenting this thesis in fulfillment of the requirement for master's degree from Universiti Utara Malaysia, I agree that the University Library may take it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or, in their absence, by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying or publication or use of this thesis or parts of it for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from thesis.

Request for permission to copy or to make other use of materials in this thesis, in whole or in part, should be addressed to:



**Dean of School of Othman Yeop Abdullah Graduate School of Business
Universiti Utara Malaysia
06010 UUM Sintok,
Kedah Darul Aman,
Malaysia**

ABSTRACT

The purpose of this study is to understand the relationship between globalization and performance of the Islamic banking system in Malaysia. This study uses the bank-characteristic determinants (internal factors), macroeconomic determinants (external factors) and three different types of globalization including economic globalization, social globalization and political globalization to explain local Islamic bank performance in Malaysia. This study uses regression analysis based on the secondary data for local Islamic banks in Malaysia. The period for this secondary data is 5 years which is from the year 2013 till 2017. This study indicates that there is strong evidence stating both economic and politic globalization shows a negative significant effect on the Islamic bank performance in Malaysia. Meanwhile, social globalization shows an insignificant result on this. As for bank characteristics variables, credit risk shows a negative significant result towards Islamic bank performance in Malaysia while bank size shows a positive and significant result towards Islamic bank performance in Malaysia. The macroeconomic variable which is GDP does not show any significant result towards the Islamic bank performance in Malaysia. Therefore, central bank of Malaysia should give some incentive training for local bankers on how to adopt new supervision and risk management. This will give the local bankers some new knowledge to handle better risk management and directly boost the bank performance. Besides that, banks should develop their credit risk management to overcome any default loans and for better financial performances. Islamic banks in Malaysia also need to expand their businesses as larger banks gives a larger facility which directly boots the bank performance. It is also recommended for Malaysian Islamic banks to improve their forecasting of macroeconomic fluctuations in future to achieve greater efficiency levels.

Keyword: Bank, POLS, ROE, Malaysia, KOF Globalization Index

ABSTRAK

Tujuan kajian ini adalah untuk memahami hubungan antara globalisasi dan prestasi sistem perbankan Islam di Malaysia. Kajian ini menggunakan penentu ciri-ciri bank (faktor dalaman), penentu makroekonomi (faktor luaran) dan tiga dimensi globalisasi termasuk globalisasi ekonomi, globalisasi sosial dan globalisasi politik untuk menjelaskan prestasi bank Islam tempatan di Malaysia. Kajian ini menggunakan analisis regresi berdasarkan data sekunder bank Islam tempatan di Malaysia. Tempoh data sekunder yang digunakan adalah 5 tahun dari tahun 2013 hingga 2017. Kajian ini menunjukkan terdapat bukti kukuh yang menyatakan bahawa globalisasi ekonomi dan politik mempunyai kesan negatif yang signifikan terhadap prestasi bank Islam di Malaysia. Sementara itu, globalisasi sosial menunjukkan hasil yang tidak signifikan dalam kajian ini. Bagi pemboleh ubah ciri-ciri bank, risiko kredit menunjukkan kesan negatif terhadap prestasi bank Islam di Malaysia manakala saiz bank menunjukkan hasil yang positif dan signifikan terhadap prestasi bank Islam di Malaysia. Pemboleh ubah makroekonomi yang digunakan iaitu KDNK tidak menunjukkan sebarang hasil yang signifikan terhadap prestasi bank Islam di Malaysia. Oleh itu, bank pusat Malaysia perlu memberi latihan insentif kepada bank-bank Islam tempatan tentang cara mengamalkan penyeliaan baru dan pengurusan risiko. Ini akan memberikan peluang kepada bank-bank Islam tempatan untuk mengendalikan pengurusan risiko yang lebih baik dan secara langsung meningkatkan prestasi bank Islam di Malaysia. Di samping itu, bank Islam perlu juga membangunkan pengurusan risiko kreditnya untuk mengatasi sebarang pinjaman yang berisiko tinggi untuk meningkatkan prestasi kewangan dengan lebih baik. Bank-bank Islam di Malaysia juga perlu mengembangkan perniagaan mereka kerana bank-bank yang lebih besar memberikan kemudahan yang lebih besar yang secara langsung menaikkan prestasi bank. Bank - bank Islam di Malaysia perlu meningkatkan ramalan mereka tentang prestasi makroekonomi pada masa akan datang untuk mencapai tahap kecekapan yang lebih tinggi.

Kata Kunci: Bank, POLS, ROE, Malaysia, Index Globalisasi KOF

ACKNOWLEDGEMENT

First and foremost, I would like to thank the Almighty for giving me the gratitude as an obedient religious person. I appreciate all the strength, courage, wonderful people that he has given me throughout this study. His greatness gave me an inspiration and strength to finish this study on time.

I would like to thank my supervisor, Dr. Zaemah, for her patient guidance, inspiration and advice she has provided throughout my time as her student. I found friendship, guidance, discipline and love, and almost everything in just one person. I have been extremely lucky to have a supervisor who cared so much about my work, and who responded to my questions and queries so promptly. Thanks for your effort in guiding me, motivating me and most importantly for your care and patient in guiding me complete this research paper.

Special love and thanks for my parents who nonstop giving me encouragement which boost me up throughout this study. I would like to thank my father Mr. Subramaniam Sinnapan for giving me support morally and financially. I would like to thank my mother Ms. Parimala Devi Suppayah for her love and continuous support. Not to forget, I would like to express my gratitude to my siblings Mr. Shaktynath Subramaniam and Miss Raynuga Dewi Subramaniam for the motivations and moral support for me to pursue my master's study. A special thanks to my grandmother Madam Rukumoney, my uncles Mr Jegathesan & Mr Jai Shankar who have given be a lot of moral support in completing this thesis. Without family support I would be nothing.

Not to forget, I would like to thank all my lecturers who uses their time and effort to train, guide and thought me well to this far. I will not forget their guidance and advises that they have given to me.

Completing this work would have been all the more difficult were it not for the support given by my wife. Special thanks to Mrs. Sharunya Premenath for being with me all the time. Your moral support and advices is one of the reason for me to get back up when I am stressed and down. Last but not least, I would like to thank all my beloved university (UUM) for giving me this golden opportunity to carry out this research in a very conducive environment. Thank you.



TABLE OF CONTENTS

PERMISSION TO USE	i
ABSTRACT	ii
ABSTRAK	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
LIST OF FIGURES	ix
CHAPTER 1	1
1.1 Introduction	1
1.2 Background of the study	1
1.3 Problem Statement	6
1.4 Research Questions	9
1.5 Research Objectives	9
1.6 Significant of the Study	10
1.7 Scope of the Study	11
1.8 Organization of the Study	12
CHAPTER 2	13
LITERATURE REVIEW	13
2.0 Introduction	13
2.1 Theory	13
2.1.1 Eclectic Theory	13
2.2 Past Studies	15
2.2.1 Dependent Variable	15
2.2.2 Independent Variables	16
CHAPTER 3	27
RESEARCH METHODOLOGY	27
3.0 Research Design	27
3.1 Sample Size	27
3.2 Theoretical Framework	29
3.3 Data Description	29
3.4 Hypothesis	31
3.5 Statistical Analysis	31
3.5.1 Descriptive Analysis	31
3.5.2 ANOVA analysis	32

3.5.3	Diagnostic Analysis (assumptions)	32
3.5.4	Correlation Analysis	34
3.5.5	Multiple Regression Analysis	34
CHAPTER 4 DISCUSSION OF RESULTS		36
4.0	Summary of Statistics	36
4.1	Descriptive Analysis	36
4.2	Correlation Analysis	37
4.3	Normality	39
4.4	Linearity	40
Normal P-P Plot of Regression Standardized Residual Dependent Variable ROE		41
4.5	Multicollinearity	41
4.6	Homogeneity	42
4.7	Multiple Regression	43
4.7.1	Model Summary	43
4.7.2	ANOVA	44
4.7.3	Coefficient Analysis	44
4.8	Concluding Remarks	50
CHAPTER 5		51
CONCLUSION		51
5.1	Summary of Findings	51
5.1.1	Objective 1	51
5.1.2	Objective 2	52
5.1.3	Objective 3	53
5.2	Contribution of the Study	55
5.2.1	Academic	55
5.3	Limitations of the Study	55
5.4	Recommendations and Future Research	56
REFERENCES		57
APPENDIX		64

LIST OF TABLES

TABLE 3.0. List of Malaysian Local Islamic Banks.....	28
TABLE 4.1 Descriptive Statistics.....	36
TABLE 4.2 Correlation Analysis	37
TABLE 4.3 Normality Analysis	39
TABLE 4.4 Collinearity Statistics	41
TABLE 4.5 Test of Homogeneity of Variance (ROE)	43
TABLE 4.6 Model Summary.....	43
TABLE 4.7 ANOVA Analysis	44
TABLE 4.8 Coefficient Analysis.....	44



LIST OF FIGURES

FIGURE 3.1 The Theoretical Framework of Study.....	30
FIGURE 4.1 Linearity Graph	41



CHAPTER 1

1.1 Introduction

Globalization is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology. This process has effects on the environment, on culture, on political systems, on economic development and prosperity, and on human physical well-being in societies around the world. The effects of globalization are explained based on previous history, economic evidences and through the Islamic banking industry in Malaysia. This research also discussed the issues involved in globalization towards Islamic banks in Malaysia. Three research objectives and questions are developed based on the issue discussed in the problem statement.

1.2 Background of the study

Globalization is one of the popular and important word that is taking the spotlight of the world today. In 1985, the term of "globalization" was first used by Theodore Levitt. Theodore Levitt is an American economist and a professor at the Harvard Business School. Moreover, Theodore has also describes the fast changes that had taken places in the global economy over the last a few decades. The fast and pervasive economic and financial changes had occurred in consumption, production and investment all around the world. Early thoughts of globalizations were that when the world large disintegrated economic units are integrated together to form a more closed-circuit economic unit, the gains can be derived from speed, closeness and unity of regions

(Ekong, 2016). Globalizations can create wealth to the nation and it is unquestionably can convey the economy of the nation to the highest stage. Globalization brings people around the world closer and introduce as well as offers us to make decisions in order to produce and to be more productive in terms of permitting us to improve our lives in a better way. However, if globalization can create wealth, beyond any doubt, than it can take it back under this circumstances. Moreover, not everyone is excited about globalization since it also conveys the negatives impact to the nation.

On the other hand, both social and politics globalization has given a huge impact in local traditions and the way of life of companies, firms, banks and many more. Most developing country felt that the nation are in danger due to globalization, however, it is also a vital thing to understand that globalization might also provide opportunities to developing countries to boost the economy and creating more jobs opportunity.

According to globalization index developed by Dreher (2006) through KOF globalization index, there are three main globalization variables and they are economic globalization, social globalization and politic globalization. The KOF Index of Globalization is an index of the degree of globalizations of 122 countries, whereby the economic globalization is the increase of economic fundamental of the national economies over the world through an increase in cross-border development of merchandise, services, innovation, and capital. Meanwhile, social globalization is based to the transmission of thoughts, implications, and qualities around the globe that widen and increase the social relations.

This process is set a part by the normal domestic usage of societies that have been diffused by the internet, popular culture media, and universal travel. Other than that, political globalization refers to the development of the overall political framework, both in size and complexity. These framework incorporates with national governments,

and intergovernmental associations as well as government-independent components which carries the worldwide common society, such as, international non-legislative associations and social development associations.

Globalization has transformed Malaysian economy from an Agrarian based economy to an industrialized economy, endeavoring to form into a knowledge economy. Most of the mega projects in Malaysia have reach the global in one way or another as explained by Phua & Soo (2004). Moreover, with a specific goal to accomplish the above objectives, Malaysia required to take more open challenges such as, economic policies, as social policies and political policies in the next level. Malaysian youth have more access to the alternative social media, and electronic media in order for them to receive and debate openly on the bright side and the downside of the impacts from around the globe which quoted by Phua & Soo (2004).

The New Economic Policy (NEP) in the year 1990, is replaced with a vision to revise the plan known as National Developed Plan. The current Prime Minister which was also the fourth Prime Minister of Malaysia introduced during his tenure that Vision 2020 which will be the forecast ahead of era Malaysia Globalization that will carries the modern and uplifting Malaysia to the next level standing equal with the other countries in terms of policy makers in social category, and in economy cluster. The announcement of Vision 2020 is to make Malaysia to move forward into globalization in order to robust the development of Malaysia economy.

Therefore, the initiative steps taken by the ministry including to promote of the Malaysian market, education system, and the opening on the migration to an individual that travel in and out of Malaysia. This shows that the globalization era in Malaysia had swift draft in the right direction and path to achieving the ultimate goal of vision 2020. Unfortunately, the impact of Asian economic crisis in 1997, set back Malaysia to be

more caution and careful in terms of opening up its economy policy boundaries and other policies. However, Malaysia did not stop to accomplish the above goals, where they are still adopting and receiving more open strategy and plans in some key areas compared to before which still bring some globalizing background to Malaysia periodically.

The effect of globalization on national's security in Malaysia is complex. Besides, it could be influencing the political, economic and social conditions inside the states. The effect on globalization on the national security condition isn't completely positive. This is one of the difficulties to the world and huge numbers of them represent to long term threat which have traditionally fallen outside the foreign policy.

However, the effect of globalization isn't really negative. The powers of globalization have achieved a good stability in the district. For instance, Johor-Riau-Singapore triangle in Southeast Asia, these nations have decreased the conflicts among them and they coordinate between every one of them. For the cultural aspect, globalization means the changes in term of the way of living among people in the community. The process of culture globalization in banking sector would not be smooth without the help of an advanced communication technologies. Besides that, globalization promotes bank marketing through internet and advancements of bank globally which banks able to expand their branches throughout the world.

According to Horen & Claessens (2009), banking sector has progressively become more globalized through developments in technology of communication, deregulation and additional economic integration. Besides that, banks can get a great advantage by expanding the economics and products in large economy scale and at the same time it will reduce their risk exposure associated with beings in one market (Sufian & Kamarudin, 2016). It is very important for banks to come out with many

new products in the globalization era to maintain the performance of the bank in this competitive market. The mechanics of banking operations tasks turn out to be vital for this market. These bank customers are principally from developed nations and value the speed, exactness and effectiveness of the financial transactions. According to Kanyak (1986), under the influence of heavy generic as well as brand competition both from domestic as well as foreign financial institutions, to preserve their market share and feasibility global banks have had to differentiate their product or service contributions as well as they have come in into different market segments.

Banking system in developing business sector have encountered a critical change due to the globalization, financial progression, openness to international capital flows and technological as well as financial advancement (Detragiache & Gupta, 2004). A closer look at the Malaysian banking system is necessary to understand the banking system of this country.

Malaysian banking system is different from other emerging economies, as Malaysian banks are operating in a dual banking system, whereby the conventional banks are operating side by side with the Islamic banks. At the onset of the 1997 Asian financial crisis, the banking industry, non-banking financial intermediaries and financial markets comprised the Malaysian financial industry. The central bank, Central Bank of Malaysia, constitutes the apex of the banking industry, comprising commercial banks, Islamic banks, merchant banks, finance companies, discount houses, foreign bank representative offices and offshore banks in the International Offshore Financial Centre in Labuan as well as Islamic banks.

The Malaysian government is a consistent supporter that having proficient financial system framework is the way to stimulate savings, investments and economy growth in the nation. The nation has made real commitments in the current

improvements, developments, regulations and major contribution of Islamic banking sector and finance world. Foreign Islamic banks held over 90 percent of the share of the banking market in 1957, when Malaysia became independent, but by 1997 controlled only 16.7 percent of banking assets (Detragiache & Gupta, 2004). The progressive failure of foreign banks was the result of a deliberate government policy of evolving the domestic financial sector, under which foreign banks have been banned to open new branches since 1971 and the last license to a foreign institution approved in 1973. The market share of foreign banks was relatively stable in the 1990s until the crisis (Detragiache & Gupta, 2004).

1.3 Problem Statement

Research has demonstrated that banking system's reliability and stability altogether put it in a superior stand to pick up from business. Such a steady state is accepted to protect the banking system against trouble, contagious and moral hazard. It decides the proficiency and efficiency of the banking system.

There are many issues that been argued by other authors such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Ghosh (2016), Sufian & Kamarudin (2016), Nguyen & Nguyen (2018) on the design of the globalization matters for the performance of the domestic commercial banks. According to Horen & Claessens (2009) there are many reason for bank to become globalized which is through technology of communication, deregulation and more economic integration. Besides that, due to globalization, the activities in banking has been attributed to institutional specific characteristics and better profit opportunity (Focarelli & Pozzolo, 2005).

Conceptually, globalization in banking sectors occurs when the foreign banks penetrate into the domestic market. Foreign banks might influence the bank performance in positive ways or in negative ways. Previous study such as Sufian & Habibullah (2012), Sohaib & Ahmad (2013), Sufian & Kamarudin (2016), and Nguyen & Nguyen (2018) tends to agree that globalization is giving an advantage to bank performance especially in the return on assets (ROA) and return on equity (ROE). However, Boot (1999) and Ghosh (2016) had argued that there is negative side of globalization in banking sector.

According to Boot (1999), governments may wish to have the largest institutions in their nations which domestically owned. So, it is also being argued that globalization by bringing up foreign bank in the concentrated market might implies loss to domestic banks as it brings losses of a significant share to the advantages of foreign investors. Foreign banks also might give a high competition to domestic banks when it come into globalization. This might reduce the banks performance domestically.

Besides that, regarding potential damages, foreign banks are regularly blamed for stimulating outflow of capital from the host country. Hence, when a country in a hard time, foreign banks might facilitate economic crisis, financial stability due to the outflow of capital from the host country (Ghosh, 2016). This will indirectly affect the bank performance of a country.

It come to an understanding that regulation and a good supervision is vital for both domestic and foreign banks. However, deregulations might happen due to the impact of globalization. According to Ghosh (2016), when the restriction of foreign banks in reduces, it may imply border efforts to deregulate the domestic banking sector in a sector. This might create a risky environment and indirectly affects the banking performance overall in a country (Cetorelli & Goldberg, 2012).

However, some author such as Tschoegl (2004) counter the arguments above. During economy emergency, domestic depositors frequently pull back their deposits from foreign banks in which they have lost certainty and redeposit their assets in less risky banks, such as domestic ones. During emergency, the branches of domestic banks in a country will directly attract the attention of the depositors especially the banks with a great and better regulation system (Tschoegl, 2004).

Besides that, globalization might give a stable supply when the parent banks of the foreign countries back up the host's country banking industry during crisis. In addition, foreign banks might increase the bank performance by bringing up advance technologies, better supervision regulation and a good risk management system through globalization. This will eventually raise the competition level of host nation's banking industry. Detragiache, Tressel, & Gupta (2008) explains that through globalization, foreign bank can be considered safer than domestic bank because they have parent banks to back them up, especially during financial crisis.

In addition, economic integration and profit opportunity are driving forces of bank globalization. Nevertheless, economic integration and profit opportunity might be different depending on the home countries of the banks due to the politic, economy and social factors of the country and the bank culture itself. Thus, this study also builds an empirical model to measure the performance of the bank based on the internal factor which includes the bank-specific and also measures the external factors which includes the macroeconomic factors.

Based on the contrasting arguments on the positives and negatives sides of globalization towards bank performance, a research and study on the impact of globalization on the bank performance is still lacking. Thus, a good investigation of this topic and area gives a stable and good view of the impact of globalization towards the bank performance.

1.4 Research Questions

The following research questions are raised:

1. Which bank-specific characteristics influence the performance of the Malaysian Islamic banking sector?
2. Which macroeconomic conditions give an impact to the Malaysian Islamic bank performance?
3. Does globalization have any relationship with the Malaysian Islamic banks performance?

1.5 Research Objectives

Specifically, the objectives of this study are:

1. To examine the bank specific characteristic that may influence the Malaysian Islamic bank performance.
2. To analyze the effect of macroeconomic conditions towards the performance of Malaysian Islamic banking sector.
3. To investigate the relationship of globalization on the performance of Malaysian Islamic banking sector.

1.6 Significant of the Study

For continues presence and progress in performance, banks need to constantly meet the required standard in the global setting. One of the importance of this study is that it fills in as a perusing research record that gives a superior understanding of bank-worldwide transfer relationship. This investigation will give an immense value to the students of business, finance and economics since it will remain a source of information and data for them and other people who may wish to do additionally examines on future research issues.

Globalization is the key trend of the business today. Globalization gives a positive or negatives impact one country, industry or individuals. The investigation of the globalization helps the banking industry to decide on their future plans on their development and performance. For instance, globalizations bring a competition for domestic banks with foreign banks. However, they also need to be aware that globalization might also bring new technologies, better supervision and regulations and better performance. Technologies with a good system and regulations might boost up the bank performance as the labour cost will be cut down. Besides that, the services will be more efficient and less time consuming. Thus, the results of this paper might contribute an idea to banking industry on the future plans.

It is understandable that the world if moving towards globalization in a fast track. This study proves that globalization plays a vital role in a country, bank industry and to an individuals. Most of the banks are closing the subsidiaries due to the advancement of technologies. Globalization bring a great advancement towards technologies. Most of the bank services are in tip of our fingers. However, some

countries are lack of experts in handling the technologies. We also aware that, the advancement of globalization also gives the birth of hackers globally. Therefore, with the result of the study, government can come up with a policy that promote high education which mainly focused on science and technologies. This will ensure future individuals ready to face the global competition.

1.7 Scope of the Study

The current research focus are on the Islamic banks in Malaysia. This paper also been narrow down to only cover up the domestic Islamic banks in Malaysia which consists of 11 banks. The period used for this research is 5 years which is from 2013 – 2017 as this period is the best time frame to define the latest globalization era. The independent variables are divided into three. They are globalization, bank characteristics (internal factors) and macroeconomic variables (external factors). The concept of globalization is very wide. However, this study had only cover up on political globalization, economic globalization and social globalization. As for bank characteristic, this study investigated on the bank size and credit risk. For macroeconomic variable, this study used gross domestic product (GDP). In regard to banks performance, this study investigated using only one measurement which is the Return on Equity (ROE) of domestic commercial banks in Malaysia. Data for Globalization is collected from KOF globalization index which introduced by Dreher (2006). The data of bank characteristic is obtained from the annual report of Malaysian Islamic banks and data stream. As for the data of macroeconomic variable is collected from the World Bank data and IMF report.

1.8 Organization of the Study

This study consists of five main chapters. In this following chapter, I have organized an overview of globalizations and Malaysian Islamic banking sector, problem statement, research objectives, research questions, significant of the studies, scope of the study and organization of the study. Next, namely chapter 2 consist of literature review. Literature review is divided into 2 parts which is theory and past studies. The theory of globalizations is explained in the first part and followed by the discussion and review of the previous study which is the empirical study. In chapter 3, research methodology is being discussed where it consists of organized the data description, variables, theoretical framework, hypothesis statement and empirical method. Section 4 implies the result and discussions. This paper ends up section 5 which consists of a conclusion and also policy implications.



CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter discussed the theory and the literature related to past studies on globalization towards bank performance. The underlying theory of this research is the eclectic theory where this theory explained on the 'OLI' framework which is the ownership advantage, location advantage and internalization advantage. This is a theory that gives advantages to foreign banks when they enter into domestic country to expand their business. Thus, it is interesting to see whether this theory will have an effect towards the local Islamic bank performance in Malaysia. As for literature review on past studies, this chapter found that many authors and researchers have different point of view. The review is being conducted for 7 variables which is ROE, economic globalization, social globalization, politic globalization, credit risk, bank size and last but not least GDP. The past results shows all three positively significant, negatively significant and non-significant results.

2.1 Theory

2.1.1 Eclectic Theory

The eclectic theory is a study on foreign direct investment (FDI) which developed by Dunning (1977). This theory has demonstrated a great explanation about multinational enterprises (MNEs) and has inspired a lot of studies and applied work in banking, economics and international business. The eclectic paradigm is also called as OLI – Model or OLI – Framework. "OLI" is the combination for Ownership,

Location, and Internalization, OLI are the three potential advantages of favorable position that may underlie a company or bank's choice to become international. Ownership advantages is intended to address the subject and question of why a few firms has yet not others travel to another country and recommend that a successful MNE and banks has some firm-specific advantages which enable it to conquer the operating costs in foreign nation. While, location advantage is intended to address the question of where a MNE plans to locate. Finally, international advantages impact on how a firm operate in foreign nation such as monitoring costs.

The eclectic theory is directly connected to this study in finding the effects of globalization towards Malaysian Islamic bank's performance. This theory indicates that there are three important factors to look up before internationalization or globalization happens. Based on the theory, it shows several advantages for a country in expending their firms and banks. So basically, this theory shows that there is huge advantage for the foreign banks to follows the three criteria too. Based on the theory above, this study actually intended to find the impact of foreign bank's advantages in domestic country towards the performance of local Islamic banks. In the ownership advantage factors, ownership tend to have competitive advantage in engaging themselves in foreign direct investment. Thus, this study uses this theory to see whether the competitive advantage in foreign banks will affects the local Islamic banks.

Next factor is the location advantages, this factor tends to take the advantages of domestic country location to exploit the resources and adding activities to gain competitive advantage. This study tends to investigate whether the competitive advantage for foreign banks through location advantage affects the local Islamic banks in domestic country. Finally, the internalization advantage gives a good impact towards the foreign banks where they can maintain the performances internally with a lower cost by operating from a different location. Cost effective will give foreign banks a

good competitive advantage and this study investigate whether the impact of international advantages in foreign banks will affect the local Islamic banks performance.

In summary, eclectic theory shows the advantages of globalization for firms and banks if it follows and have three main advantages which is the ownership advantages, location advantages and the international advantages. Therefore, this theory is very beneficial in understanding the advantages of foreign banks entering the domestic country through globalization which directly affects the local Islamic banks which is accordance to the objective of this study.

2.2 Past Studies

2.2.1 Dependent Variable

2.2.1.1 Bank Performance – Return on Equity (ROE)

There are a few proportions that are regularly used to measure the performance of banks, for example, return on assets (ROA), return on equity (ROE), profit margin (BTP/TA), interest margin (NIM), return on deposits (ROD), and net profit expense ratio (PER) (Burhonov, 2006). As per the literature review that has been used for the determinants of banks performance; this research uses and pick the best among all the bank performance variable which considered fitting to be connected to Islamic banks in Malaysia. The two regularly utilized for bank performance are the return of assets (ROA) and the Return on Equity (ROE) (Molyneux & Iqbal, 2005).

ROA is used because it demonstrates the profit earned per unit of assets and mirrors the management's ability to use the banks financial and real investment resources to create profits, hence it might be viewed as the best measure of profitability.

Return on assets is preferred to other profit measures because it shows the efficiency of the banks in regards on banking operations and the productivity to manage its financial stability. Moreover, since the arrival on banks' deposits is dependent upon the results of the projects that the banks finance, the return on assets mirrors the management's capacity to produce positive returns on deposits (Al Manaseer, Al-Dahiyat, Sartawi, & Al-Hindawi , 2012). Many previous study used ROA to measure bank performance such as Said & Tumin (2011); Smaoui & Salah (2009); Sufian & Habibullah (2012); Ghosh, (2016); Sufian & Kamarudin (2016); Nguyen & Nguyen, (2018) and many more.

In a conclusion to this, we can conclude that there are a lot of possible proxies to measure bank performances. Other than that, (Rasiah, 2010) have stated that, one of the advantages of using profitability ratio is that they are inflation invariant because of this the ratios aren't influence by means of the changes in price changes. ROE is a huge measure while contrasting the profitability of 1 financial institution with some other or with the Islamic banking system as a whole (Rasiah, 2010). The study on the literature review and discussion above, ROA may be keep in mind as an excellent proxy to measure the financial institution overall performance. However, ROE is better and may be taken into consideration as an excellent proxy to measure the financial institution overall performance.

2.2.2 Independent Variables

2.2.2.1 Economic Globalization (EG) and Bank Performance

This research takes economy globalization (EG) as one of the proxy for globalization. This research additionally demonstrates that EG may have relationship with bank performance. There are a couple of studies that has been conducted using economic

globalization. This economic globalization proxy depends on the KOF globalization index which is created by Dreher (2006). Since the index is brought to light in the year 2007 and the record is refreshed time to time, hence the past research of this study is not many and it may give a valid justification for us to direct this research in Malaysia. Sufian & Habibullah, (2012) finds that there a significant and positively affects towards the bank performance based on a study that was conducted in China in the year 2012. The researcher believed economic globalization does give us positive profitability towards the banks in China as the results are statically significant at 1% level.

Other than that, Mayer-Schönberger and Hurley (2000), prescribe that worldwide communication systems and structure have on a very basic level weakened the cross-border transaction costs and promotes financial coordination and international trade. Meanwhile, Sufian and Kamarudin, (2016) finds that the outcomes are synchronizing with Sufian and Habibullah (2012) examine based on their study on South Africa in the year 2016. However, the result shows foreign banks are more economically globalized compared to domestic banks. Good labor force and highly educated employees might give a better impact to foreign bank compared to domestic banks as they easily adopt the new technologies, risk management techniques and new financial instruments (Berger, DeYoung, Genay, & Udell, 2000).

However, not every one of the research demonstrates a positive and significant outcomes. Sohaib and Ahmad, (2013), conducted a research on the Impact of Globalization on the banking performance of Pakistan. The outcome demonstrates that there is no any effect of economic globalization towards bank performance. It demonstrates a positive outcome, however it is unimportant towards bank performance. This may be the local nation confinement. As indicated by Nguyen and Nguyen, (2018),

residential financial institutions in blooming nations may confine the citizen to utilize more foreign capital market instead of local markets.

In light of the past investigation disputes, we can reason that there are progressively positive and huge effect on globalization towards bank performance. Notwithstanding, there is likewise a study that demonstrates an inconsequential impact. Every geology territories have diverse financial circumstances. The economic globalization in blooming nation and developed nation may give a different outcome on the bank performance. Hence, this research finds that it is interesting to direct a research on the impacts of economic globalization towards economic development in Malaysia.

2.2.2.2 Social Globalization (SG) and Bank Performance

Sufian and Habibullah (2012), shows that social globalization gives a positive and huge effect towards bank performance. The research was led to discover the effect of globalization towards bank performance in China. Social globalization record is divided into three markers to be specific personal contacts (Pers_Con), information flow (info_flow), and culture proximity (Cul_Prox). It was surprising to locate that all the 3 markers give emphatically huge indication. This shows China has a decent financial framework with extraordinary social coordination that expressively promotes Chinese banks' performance. Also, these outcomes upheld by Berger, DeYoung, Genay, and Udell, (2000) where they accepted that under the "limited form" of the global advantage hypothesis, simply the beneficial associations or foundations in one or a couple of number of nations with specific perfect market or regulatory conditions in their local nation can work more capably than local banks in various nations.

However, not every one of the nations and research apply similar outcomes. Sufian and Kamarudin (2016) had accompanied an outcome that social globalization brings a negative impact towards bank performance. This investigation was led in South Africa and was distributed in the year 2016. As indicated by Sufian and Kamarudin (2016), they accepted that the culture proximity of home country may give a negative effect towards the performance of banks that operating abroad.

A possible reason could be a direct result of the ethical risk issue with respect to overseas banks base headquarters, bringing about a nonappearance of screening and checking (Sufian and Kamarudin, 2016). In view of the above explanation in regards to the global advantage hypothesis, Sufian and Habibullah, (2012) concurs with the theory from Berger, DeYoung, Genay, and Udell (2000) that because of a stable economic condition and better guidelines in home nations, banks can work more proficiently than the local Islamic banks in local nation. Curiously, this speculation does not show the same in South Africa. Observational discoveries demonstrate that the overseas banks had a gigantic drawback contrasted with the banks from distant countries.

In view of the past research above, it demonstrates that overseas bank in a local nation with a decent guidelines and markets may really lift and perform better contrasted with local banks in local nation. Be that as it may, not all concur with this proclamation. Past examination by Sufian and Kamarudin (2016) and Nguyen and Nguyen (2018) dismissed and can't help contradicting the global advance hypothesis created by Berger, DeYoung, Genay, and Udell (2000). Other than that, there is likewise irrelevant outcome on social globalization towards bank performance. In this way, it is fascinating to see the outcome in Malaysia on concurring or contradiction on Berger, DeYoung, Genay, and Udell (2000) hypothesis.

2.2.2.3 Politic Globalisation (PG) and Bank Performance

Sufian & Habibullah (2012) proves that there is positive and significant effects on politic globalization towards bank performance. Sufian & Habibullah (2012) has conducted a research on globalization and bank performance in China. According to Dreher (2006), politic integration might influence the economic growth. The reformation of politic and economic processes could happen due to high politic integration and this indirectly encourages growth (Dreher, 2006). The empirical results prove that the free trade zone in China, for example China - ASEAN FTA, China – NEW ZEALAND FTA, Hong Kong Closer Economic Partnership Agreement and many more had expressively boost the bank operations in the Chinese banking sector. Besides that, Sufian & Kamarudin (2016) also shows a positively significant effects on globalization towards bank performance. Based on the banking sector in South Africa, the positive impact might have existed due to the free trade zones agreement such as Africa Caribbean Pacific – European Union (EU – ACP) and many more. This shows that free trade agreements actually gives more benefits than harm to South Africa banking sector (Sufian & Kamarudin, 2016).

However, not all the studies show a positively significant result. There are some studies shows a different result. For instance, Nguyen & Nguyen (2018) conducted a study in Vietnam with a title of Globalization and bank performance in Vietnam. The study exerts negative and significant result on globalization towards bank performance. Same as the studies in South African and China, Vietnam also joined and signed the free trade agreement. After joining WTO, the Vietnamese government has introduced a progression of policies and made a legal passageway for international financial institutions and foreign investors to enter the Vietnam banking sector. Foreign banks had put intensely in advertising to extend their market share.

The expanding aggressive pressures from foreign opponents brought a considerable measure of challenges for domestic banks. According to Nguyen & Nguyen (2018) local banks have attempted a great effort to receive international standards, for example, the Basel capital system that is considered to upgrade governance and risk hedging. In addition, domestic banks had taken fast responses to managing the banking system restructuring, alongside recovering their clients through convincing services that best address client issues with the appropriation of updated technologies and reasonable reform policies. This indirectly makes the operating costs expanded quickly and it negatively affected the performance of banks in Vietnam during period (Nguyen & Nguyen, 2018). Other than that, there is also insignificant result on the impact of globalization towards bank performance. A study conducted by Sohaib & Ahmad, (2013) on the impact of globalization towards bank performance indicates an insignificant effects.

As a summary, politic globalization might give an impact towards bank performance in Malaysia. However, it is interesting to conduct a study to find out whether the joining venture with free trade agreement and others actually increases the bank performance or this collaboration might give high competition to domestic banks that will actually increases the expenses in Malaysia and directly gives negatives impact towards bank performance.

2.2.2.4 Credit Risk (LLP/TA) and Bank Performance

In the literature, non-performing loan to total loans is consider as a proxy for credit risk, and a higher ratio demonstrates that there is more risk for losses from loan defaults (Zhang, Jiang, and Wang, 2013). According to Cooper, Jackson, & Patterson (2003), changes in credit risk might reflect the changes of a bank's loan portfolio.

There are some studies that shows a positive and significant sign on the impact of credit risk towards bank performance Zhang, Jiang, Qu, & Wang (2013), Abiola & Olausi (2014) and Syafri (2012) are among of the previous studies that shows a positive and significant effects on credit risk (CR) towards bank performance. Berger, DeYoung, Genay, & Udell, (2000) suggest that under the skimping hypothesis, financial institution tend to expand long-run profits. Therefore, they chose to have a small cost in the short-run by skimping on the capital by devoting their resources to loans, but all the consequences must be bared if there is any problem arise in the loan performance.

However, credit risk (CR) tend to have a negative coefficient as bad loans employs regressive impact on bank performance and most researchers expects to have a negative and significant result on their test. According to Miller & Noulas, (1997), the higher the exposure of banks or financial institution in giving high risk loans, the greater accumulation of unpaid loans and this will directly lower the profitability of the banks. Sohaib & Ahmad, (2013) demonstrate a negative and significant effects on credit risk towards the bank performance in Pakistan. Sufian & Kamarudin, (2016) empirical findings show a negatively significant result in credit risk towards bank performance. According to Sufian & Kamarudin, (2016), South Africa started to look credit risk management seriously. This is because during bank sector crisis, banks realized and learn from mistake based on the failure of banks by creating more reserves to write of impaired assets.

The recent study by Nguyen & Nguyen (2018) also indicated to have a negative and significant result on credit risk towards the bank performance in Vietnam. According to Nguyen & Nguyen (2018), the increment of the accumulation of unpaid loans and lower profit loan will directly give a great exposure to higher risk loans. There

are many other studies that shows a negative effect such as previous study by Ramlall (2009) and Davydenko (2011).

Besides that, Hadriche (2015) results show a negative coefficient and significant impact on conventional banks while at the same time it shows a positive and insignificant impact on Islamic banks in GCC countries. However, it is interesting to find that the study made by Sufian & Habibullah (2012) that the coefficient of credit risk tend to have a positive sign, which is in compatible with the skimping hypothesis. However, the result on credit risk towards bank performance in Sufian & Habibullah (2012) study did not show a significant result in any of their regression model.

Most of the authors such as Sufian & Habibullah (2012), Sufian & Kamarudin (2016) and Nguyen & Nguyen (2018) uses the ratio of loan loss provisions to total loans (LLP_TL) as proxy to credit risk. It is interesting to conduct a study in order to see whether the credit risk will affect the bank performance in Malaysia.

2.0.1.1 Bank Size (LTA) and Bank Performance

There are many type of proxies used to measure bank size. However, most of the recent studies such as Sufian & Habibullah, (2012); Sohaib & Ahmad, (2013); Sufian & Kamarudin, (2016); Nguyen & Nguyen, (2018) and many more uses natural log of total assets to measure bank size.

A study conducted by Sohaib & Ahmad, (2013) shows a positive and significant sign on the bank towards the bank performance. This study is conducted in Pakistan and one of the variables used to measure bank characterises is bank size. He believed that large bank size might decreases the cost and at the same time increases the profitability. Besides that, Sufian & Kamarudin, (2016) also shows a positively significant result on the bank size towards the bank performance. This is because large

banks tend to have better position as they have a better reputations (Sufian & Kamarudin, 2016).

Furthermore, large banks might have a better research facilities and development capabilities which gives them a huge advantage in developing and offer new product and services (Sufian & Kamarudin, 2016). This will indirectly give the large bank acquired a higher volume and market share which will increases their bank performance. There are many other authors have conducted this study, namely Edirisuriya & Gunasekarage (2015), Khrawish (2011) and Alper & Anbar (2011).

However, not all the studies show a positive effect. Sufian & Habibullah (2012) result indicates that there is negatively significant impact towards the bank performance. Prior study from Athanasoglou, Brissimis, & Delis (2008) suggests that by increasing the size of banking firm, marginal cost can be saved. However, the effects of rising bank's size performance might be positive at a limit. Beyond the point, the size could be negative due to governmental and other reason (Eichengreen & Gibson, 2001).

The study made by Nguyen & Nguyen (2018) also shows a negative and significant effects to bank performance. Larger banks used to claim that the larger bank size might have an advantage in retrieving extra financial sources and believed that it has higher surviving ability compared to smaller bank size. However, the empirical findings show that, that was a false belief and it happens due to ignoring the potential liquidity problems and threats that large firm might face (Nguyen & Nguyen, 2018). There are many other studies that finds the same negative results such as Syafri (2012). As a sum up, larger banks might give a huge advantage as it has better research development and reputations. However, there are also some arguments saying that positive impact towards bank performance due to higher bank size might come to an end due to governmental issue. Thus, it is interesting to discover that Malaysia might

have a governmental issue due to new political system or larger bank size such as Maybank might have a better performance due to their reputation and new services.

2.0.1.2 Gross Domestic Product (GDP) and Bank Performance

One of well-known macroeconomic output is GDP. In this study, GDP in natural logarithm form (LGDP) as a proxy of macroeconomic output. The result on LGDP for Sufian & Habibullah, (2012) seems to support the argument between economic growth and bank performance. In China, the economic growth has encouraged Chinese banks to lend more, charge higher margins and improves the quality and quantity of assets. According to Said & Tumin, (2011), higher economic growth urges banks to lend more and grants them to charge higher margins, and enhancing the nature of their assets. It is expected to have a positive effect of development in GDP on profitability of banks believed by Kanwal & Nadeem, (2013); Zhang & Daly (2014); Hailegebreal (2016) and Sufian & Kamarudin, (2016).

However, the results differ with the study made by Nguyen & Nguyen (2018). The coefficient of LGDP found by them are negative and statistically significant at 1 percent. The effects of macroeconomics variables on profits arrived from the sensitivity of banking industry towards economy in Vietnam. Real GDP is expected to promote bank profitability.

In other words, it is understandable that bad economic conditions will worsen the quality of loans, credit losses and eventually effect the bank performance. Moreover, according to Nguyen & Nguyen (2018) the negative affects between ROA and Economy Growth might happen due to severe competition and lower performance. Some studies have negatively significant results such as Alper & Anbar, (2011) and Sufian, Kamarudin, & Nassir (2017).

Interestingly, there are also insignificant results which conducted by Combey & Togbenou, (2017) in Togo. They believed that there is no relationship between GDP and bank performance in short term. However, the results also show a negative impact of GDP towards bank performance in long term.

Most of the studies believed that better GDP gives a better bank performance where they can do more lending with higher margins and hence increases the bank performance. However, it does not apply to all countries where some countries like Vietnam has a bad economic growth which eventually bring up to bad loans and affected the bank performance negatively. It is interesting to conduct a study in Malaysia to find out whether it shows negative or positive effects.



CHAPTER 3

RESEARCH METHODOLOGY

3.0 Research Design

This study uses the quantitative research approach by gathering and investigating secondary data to fulfil the research objectives and to obtain an answer for research questions. The secondary data is retrieve from KOF globalization index, published annual report, Thomson Reuters's data stream and World Bank database. These data can be viewed as suitable and appropriate to be used in this study which is similar with previous studies. The quantitative methodology as opposed to subjective methodology is attractive to be utilized in this study since this investigation requires a few hypothesis testing's including the utilized of quantitative technique to manage with the data.

3.1 Sample Size

The country that been selected for this study is Malaysia. The justification for choosing Malaysia is that the study on globalization based on KOF globalization index¹ towards bank performance has never been done in Malaysia. Thus, this will be a great outcome for future research. Besides that, Malaysia is well globalized in three specific factors which is economy, social and politic. Hence, this will be a great approach to find the impact of globalization towards the local Islamic bank performance in Malaysia. The data for this research is collected for a 5 years which is from the year 2013-2017.

¹ KOF globalization index is also known as KOF Konjunkturforschungsstelle (KOF Swiss Economic Institution). The KOF Globalization Index measures the economic, social and political dimension to globalization. It is used in order to monitor changes in the level of globalization of different countries over extended periods of time. The current KOF Globalization Index is available for 185 countries and covers the period from 1970 until 2017.

The study only chooses local Islamic banks in Malaysia. Currently, Malaysia has eleven local Islamic banks which are listed in the table 3.0 below.

Table 3.0

List of Malaysian local Islamic banks

Numbers	Banks
1	Affin Islamic Bank Berhad
2	Alliance Islamic Bank Berhad
3	AmBank Islamic Berhad
4	Bank Islam Malaysia Berhad
5	Bank Muamalat Malaysia Berhad
6	CIMB Islamic Bank Berhad
7	Hong Leong Islamic Bank Berhad
8	MBSB Bank Berhad
9	Maybank Islamic Berhad
10	Public Islamic Bank Berhad
11	RHB Islamic Bank Berhad

(Sources: Bank Negara Malaysia:

<http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0>)

3.2 Theoretical Framework

Theoretical model gives a good direction and set some gaps for the reader of a research paper. According to Hair, Money, Page, & Samouel (2007), a clear picture of hypothesis can be tested with theoretical model which connects the theory and the variables. There is one dependent variable in this study which is Malaysia Islamic bank performance. This model also has seven independent variables namely economic globalization, social globalization, politic globalization, credit risk, bank size and gross domestic product. The theoretical framework is clearly shown in this chapter (Figure 3.1).

3.3 Data Description

Data is divided into two which are quantitative and qualitative variables. This paper uses secondary data and sources are from various websites and annual report such banks annual report, KOF globalization Index and the country's GDP report. This research paper is conducted in Malaysia. The data for bank performance which is ROE is obtain from bank's annual report. As for globalization data, the data is obtained from KOF globalization index. All the internal factors or the bank specific characteristic data is obtained from bank's annual report. Next, the data for macroeconomic factors is obtain from World Bank database. Data is collected for 5 years which is from the year 2013 till 2017. This study only compromises eleven local Islamic banks in Malaysia.

Dependent Variables

Independent Variables

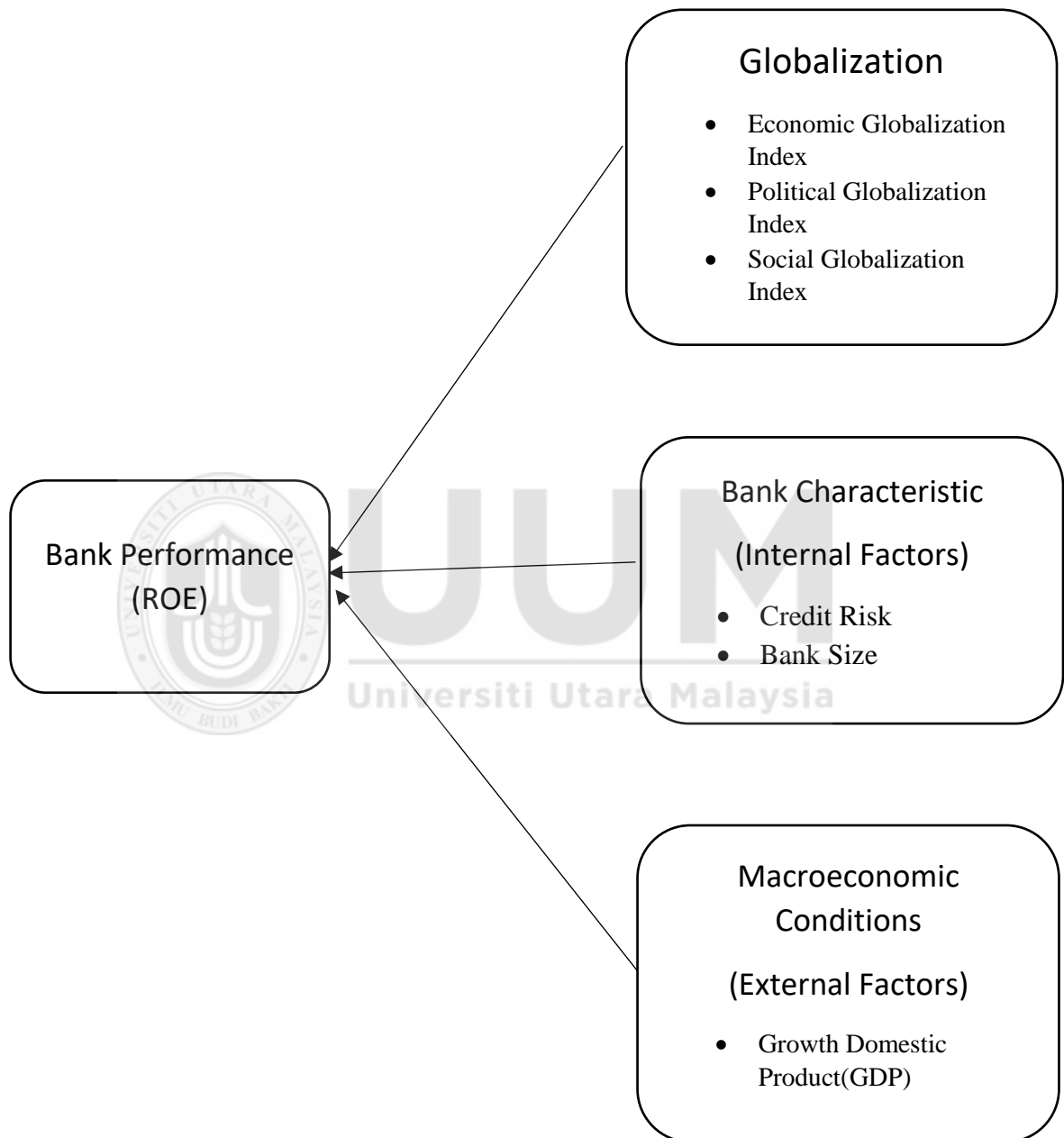


FIGURE 3.1 - *The Theoretical Framework of the Study*

3.4 Hypothesis

H1: Economic globalization has positive significant relationship with Islamic bank performance.

H2: Social globalization has negative significant relationship with Islamic bank performance.

H3: Politic globalization has positive significant relationship with Islamic bank performance.

H4: Credit risk has positive significant relationship with Islamic bank performance.

H5: Bank size has positive significant relationship with Islamic bank performance.

H6: GDP has negative significant relationship with Islamic bank performance.

3.5 Statistical Analysis

3.5.1 Descriptive Analysis

Descriptive analysis is used to portray the basic features of the information or data in an investigation. It provides summaries on the sample and measures. Together with basic designs study, it frames the basis of virtually of quantitative investigation of data. This study uses univariate analysis where it uses three major characteristics in a variable which is the distributions, central tendency and the dispersion. However, this study only focuses on central tendency and dispersion. Central tendency finds the mean, mode and median. This study uses mean as a central tendency measurement. This is because mean is a proportion of central tendency that offers a general image of the information without pointlessly immersing one with every one of the observations in a data collection. As for dispersion, this study uses standard deviation as it is the best in accuracy and detailed estimation of dispersion and it able exaggerate the range well.

3.5.2 ANOVA analysis

ANOVA analysis plays a major factor in this study. However, before this analysis is been conducted it is vital to make sure the assumptions are met. The assumptions that been used is normality and homogeneity of variance. Normality test is conducted and analyze through skewness and kurtosis value. While, the test that been used to find the homogeneity of variance is Levene's test. ANOVA inspects the significant mean contrasts among two groups or more on an interval or dependent variables. Significant mean differences in variables among groups is tested through ANOVA. ANOVA demonstrate whether the means for the different groups are different significantly among each other, as shown by the F statistic. Based on this study, the ANOVA is utilized to discover the mean differences in the composition of the bank performance of local Islamic banks in Malaysia.

3.5.3 Diagnostic Analysis (assumptions)

Regression diagnostic or assumptions is vital to be check before proceeding to regression analysis. The assumptions that been used are normality, linearity, multicollinearity and homogeneity. All these assumptions are conducted on SPSS software version 25.

3.5.3.1 Normality

According to (Garson, 2012), normality test is intended to analyze both independent and dependent variables data are normally distributed and reliable. Normality test and be analyze through skewness and kurtosis value. This study focuses on skewness and kurtosis results. Both skewness and kurtosis should be within +2 to -2 range as it considered as normal distributions (Hair, Money, Page, & Samouel, 2007). This test is

conducted through SPSS software version 25.

3.5.3.2 Linearity

Linearity analysis finds the slope and the intercept to assume the relationship between independent and dependent variables. This can be seen by looking at straight line. This study uses P-P Plot to conduct linearity test.

3.5.3.2 Multicollinearity

Multicollinearity exist when the independent variable has high correlation with other variables. The ideal results for a researcher conducting a study is to have high correlation between independent and dependent variable, however the correlation between independent variables should be low. Measurement that used to find multicollinearity is tolerance value and also variance inflation factor (VIF). If the tolerance value less than 0.2 and at the same time if the VIF is more than 10, then multicollinearity exist. This study uses SPSS version 25 to find tolerance value and VIF to investigate multicollinearity problem.

3.5.3.3 Homogeneity

Homogeneity is one of the assumption dependent variables demonstrate equal level of variance trough the range of independent variables. Homogeneity test is essential because variance of dependent variables should be explained in the large range of independent variables and not in the limited range. This study uses Levene's test to find the homogeneity using SPSS software version 25.

3.5.4 Correlation Analysis

Correlation analysis designed to find and quantify the relationship strength. This statistic improves the prediction of variables by understanding the causal relationship among variables. This study uses bivariate Person correlation analysis using SPSS software version 25 to find the strength of association between numerical variables. The range of coefficient should be from +1 to -1.

3.5.5 Multiple Regression Analysis

The best prediction of dependent variable and independent variables can be measure through regression result. This study uses pooled ordinary least square (POLS) to perform multiple regression analysis. This study uses SPSS software version 25 to run multiple regression result by selecting linear regression and ROE is selected in dependent box. Next, all the independent variables which economic globalization, social globalization, politic globalization, credit risk, bank size and GDP are selected in the independent box. Stepwise is the method used to run multiple regression analysis.

3.0.1.1 Regression Equitation Model

$$Y = \beta_0 \text{ROE}_{j,t} + \beta_1 \text{BankCharacteristics}_{j,t} + \beta_2 \text{MacroeconomicConditions}_t + \beta_3 \text{Globalizations}_t + \mu_{it} \quad (i)$$

$$Y = \beta_0_{j,t} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \mu_{it}$$

Where,

- ROE = Return on equity
- Bank characteristics = credit risk (LLP/TA), bank size (LTA)
- Macroeconomics condition = gross domestic product (GDP)
- Globalization = economic globalization (EG), social globalization (SG) and politic globalization (PG).
- β_0 = Constant
- j = individual bank
- t = time period
- μ = error term
- X_1 = Credit risk
- X_2 = Bank size
- X_3 = Gross domestic product
- X_4 = Economic globalization
- X_5 = Social globalization
- X_6 = Politic globalization

CHAPTER 4

DISCUSSION OF RESULTS

4.0 Summary of Statistics

This study used 11 local Islamic banks in Malaysia for a period of 5 years which is from the year 2013 till 2017. Based on the data collected, return on equity (ROE) is used as dependent variable proxy for bank performance while economic globalization, social globalization, politic globalization, credit risk, bank size and GDP are the independent variables.

4.1 Descriptive Analysis

As shown in the Table 4.2, the descriptive analysis states that variables have 55 observations. ROE has the mean value of 13.2370 % while the maximum is value is 26.34% and the minimum value is 3.15%. The standard deviation of ROE is 4.32665. Mean value for economic globalization, social globalization, politic globalization, credit risk, bank size and GDP are 72.4380, 76.8974, 83.5354, 0.004214, 17.8547 and 1.2757 respectively. All the globalization indices have 1 to 100 scales, where 100 represent the maximum value. A score of 100 signifies greater level of globalization. The bank size is calculated from the natural logarithm of total bank assets, credit risk is calculated based on natural logarithm of the ratio of total loan loss provisions divided by total loan and GDP are calculated based on natural log of GDP's. The standard deviation for the 3 globalization indices, credit risk, bank size and GDP are 4.32665, 4.32347, 2.67329, 1.03572, 0.0037352, 0.86974 and 0.21467 respectively. As overall, ROE has the highest standard deviation and largest variation between the minimum and maximum among all the variables. This implies that from the mean of ROE, the dispersion is more spread for ROE compared to other variables.

Table 4.1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE (%)	55	3.15	26.34	13.1670	4.32665
EG (index)	55	66.93	81.53	72.4380	4.32347
SG (index)	55	74.85	81.26	76.8974	2.67329
PG (index)	55	82.41	85.33	83.5354	1.03572
LLP/TA	55	-.00193	.01353	.004214	.0037352
LTA	55	16.18	21.54	17.8547	.86974
LGDP	55	.97	1.69	1.2757	.21467

4.2 Correlation Analysis

Table 4.2.2 shows the result of correlation analysis. Based on the result, it shows that there are four variables that correlate with the return on equity (ROE). They are economic globalization (EG), social globalization (SG), politic globalization (PG) and Bank Size (LTA). Meanwhile, credit risk (LLP/TA) and GDP (LGDP) does not show any significant affect towards ROE. In simple words, the variables credit risk and GDP does not correlate with the bank performance (ROE).

Based on the result above, it shows that there are three variables positively correlated with the dependent variables which is the ROE. They are social globalization, politic globalization and bank size. Both social globalization and politic globalization is highly and positively correlated with ROE which at the value of 0.305 and 0.327 respectively. Both social globalization and politic globalization is significant at the level 0.01. The independent variable bank size also shows a positive value towards ROE which at the value of 0.243. However, it is slightly different between social globalization and politic globalization as the significant level for bank size toward ROE is at 5% (0.05) level.

Meanwhile, economic globalization shows a negative correlation, yet it is significant with ROE which is at the value of -0.372 (significant at the 1% level). In the other hand, both credit risk and GDP show insignificant result towards ROE.

Table 4.2:
Correlation Analysis

	ROE	EG	SG	PG	LLP/ TA	LTA	LGDP
ROE	1	-.372***	.305***	.323***	-.127	.243*	.033
EG	-.372***	1	-.857***	-.876***	-.183	.204	-.183
SG	.305***	-.857***	1	.974***	-.051	-.073	.077
PG	.323***	-.876***	.974***	1	-.034	-.093	.120
LP/T A	-.127	-.183	-.051	-.034	1	.072	-.033
LTA	.243*	.204	-.073	-.093	.070	1	-.018
LGDP	.033	-.183	.077	.120	-.037	-.018	1

N = 55

***. Correlation is significant at the level 0.01 level (2-tailed)

**. Correlation is significant at the 0.05 level (2-tailed)

*. Correlation is significant at the 0.10 level (2-tailed)

4.3 Normality

There are many ways to assume normality in a test. In this study, normality test is obtained from skewness and kurtosis value. According to (Hair, Money, Page, & Samouel, 2007), both skewness and kurtosis should be within the range of +2 to -2 are considered as normal distribution. Based on the result in Table 4.1, all the variables which is return on equity (ROE), economic globalization (EG), social globalization (SG), politic globalization (PG), credit risk (LLP/TA), bank size (LTA) and GDP (LGDP) achieves normality assumptions. Therefore, further analysis can be proceeding to achieve the objectives of the study

Table 4.3:
Normality Analysis

	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
ROE	.703	.267	1.164	.534
EG	1.508	.267	.714	.534
SG	-1.084	.267	-.397	.534
PG	-1.203	.267	-.093	.534
LLP/TA	.946	.267	.354	.534
LTA	-.135	.267	-.924	.534
LGDP	.703	.267	-.372	.534

4.4 Linearity

The relationship between variables can be identified by using linearity analysis. The main objectives of linearity analysis are basically not to test whether the data is linear or not, whereas it is intended and used to find the slope and the intercept that assumes the relationship between both dependent and independent variables by looking at a straight line. This study uses Normal P-P Plot of Regression Standardized Residual in order to conduct the linearity analysis. Figure 4.1 gives the result of linearity analysis of this study. Based on the graph in figure 4.1, it shows a linear line where it verifies that the data used for this study can be considered as linear and most importantly it has not violated the linearity assumptions. Thus, further test can be conducted.



Normal P-P Plot of Regression Standardized

Residual Dependent Variable ROE

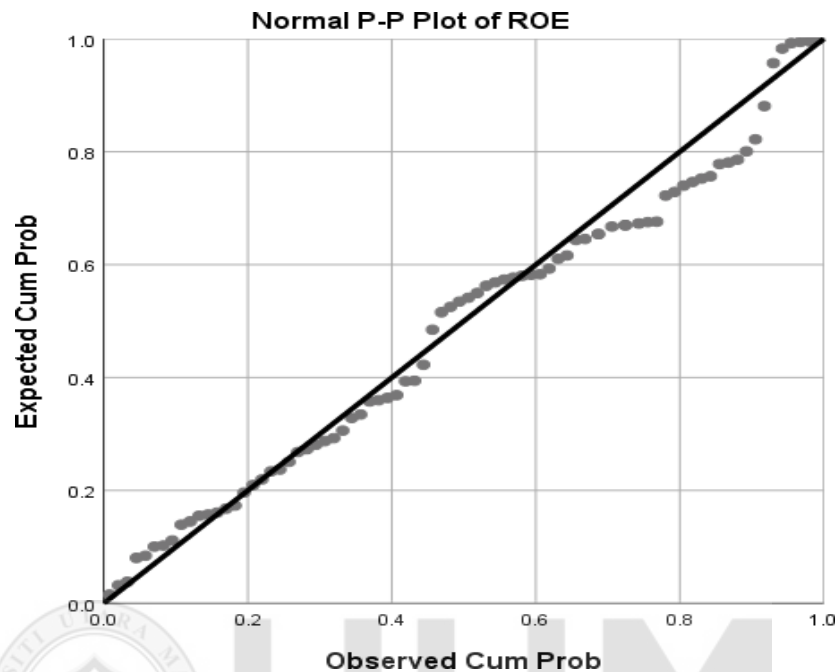


Figure 4.1:
Linearity Graph

4.5 Multicollinearity

Multicollinearity happens when two or more independent in multiple regression is highly correlated among each other. Besides, predictors often overestimate the standard deviation of regression coefficient and it directly gives a major problem in multicollinearity. Both tolerance and variance inflation factors (VIF) simultaneously played a vital role in finding multicollinearity problem. The tolerance with below 0.1 level and together with VIF value above 10 indicates multicollinearity issues. Multicollinearity is very troublesome as it increases the variance of regression coefficients. This will eventually make the regression coefficients very hard to interpret and unstable.

Based on the Table 4.4, it shows that social globalization (SG) has the highest VIF which is 17.507 and simultaneously the tolerance does not fit the criteria as it is at 0.059 which is lower than 0.1. This indicate that social globalization (SG) has some multicollinearity problem. However, all the other variables met the criteria, where the VIF is less than 10 and at the same time the tolerance is more than 0.1. Therefore, the further analysis is still being conducted as majority of the variables does not have multicollinearity problem.

Table 4.4: Collinearity Statistics

Model	t	Sig.	Collinearity Statistics	
			Tolerance	VIF
(Constant)	2.934	.004		
EG	-4.647	.000	.146	6.741
LTA	4.272	.000	.874	1.147
LLP/TA	-3.618	.001	.737	1.353
PG	-2.773	.007	.162	6.244
SG	-0.757	.453	.057	17.507
LGDP	-1.065	.290	.944	1.062

Dependent Variable: ROE

4.6 Homogeneity

The demonstration of results on analyzation on the differences of ROE of Malaysian local banks can be seen in the Table 4.5. The Levene statistic for levene's test is 2.130 and it is not significant at 0.05 level. Therefore, this shows that the ROE variance is approximately equal, and it meets the homogeneity assumption

Table 4.5:

Test of Homogeneity of Variances (ROE)

Levene Statistic	df1	df2	Sig.
2.130	7	74	.054

4.7 Multiple Regression

The multiple regression is tested between independent variables and dependent variable in this study. According to (Saleem & Rashid, 2011), one of the hypothesis used to analyze the relationship between independent and dependent variable is regression analysis. Therefore, in this study, the independent variables of economic globalization, social globalization, politic globalization, bank size, credit risk and GDP were analyzed to the effect of these variables towards ROE.

4.7.1 Model Summary

Based on the table 4.3.1, the R-square shows the value of 0.369, which means 36.9% of the total variance of dependent variables can be explained by the independent variables. While, the adjusted R-square shows 0.332 or 33.2% of independent variables that able to explain the dependent variable in this study.

Table 4.6:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
4	.606	.369	.332	3.79487

Dependent Variable: ROE

4.7.2 ANOVA

Based on the result in ANOVA analysis, the significant value shows 1% level with the value of 10.870. This indicates that it is statistically significant relationship on predictors towards ROE.

*Table 4.7:
ANOVA analysis*

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	627.326	4	156.834	10.870	.000 ^e
Residual	1080.044	73	14.401		
Total	1707.392	77			

Dependent Variable: ROE

4.7.3 Coefficient Analysis

*Table 4.8:
Coefficient Analysis*

Model	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		2.932	.004
EG	-1.107	-4.645	.000
LTA	.420	4.270	.000
LLP/TA	-.386	-3.616	.001
PG	-.636	-2.771	.007
SG	-.291	-.755	.453
LGDP	-.101	-1.067	.290

Table 4.8 shows the coefficient analysis for economic growth, social globalization, politic globalization, bank size, credit risk and GDP towards the dependent variables which is the ROE.

$$Y = \beta_0 ROE_{j,t} + \beta_1 \text{BankCharacteristics}_{j,t} + \beta_2 \text{MacroeconomicConditions}_t + \beta_3 \text{Globalisation}_t + \mu_{it}$$

(i)

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6$$

$$R_{it} = \beta_0 + \beta_1 \text{LLP/TA} + \beta_2 \text{LTA} + \beta_3 \text{LGDP} + \beta_4 \text{EG} + \beta_5 \text{SG} + \beta_6 \text{PG}$$

$$R_{it} = \beta_0 - 0.386 \text{LLP/TA} + 0.42 \text{LTA} + 0.101 \text{LGDP} - 1.107 \text{EG} - 0.291 \text{SG} - 0.636 \text{PG}$$

$$t\text{-stat} = (2.932) \ (-4.645) \ (4.270) \ (-1.067) \ (-4.645) \ (-0.755) \ (-2.771)$$

$$\text{Prob.} \ (0.004) \ (0.001) \ (0.000) \ (0.290) \ (0.000) \ (0.453) \ (0.007)$$

$$n = 55$$

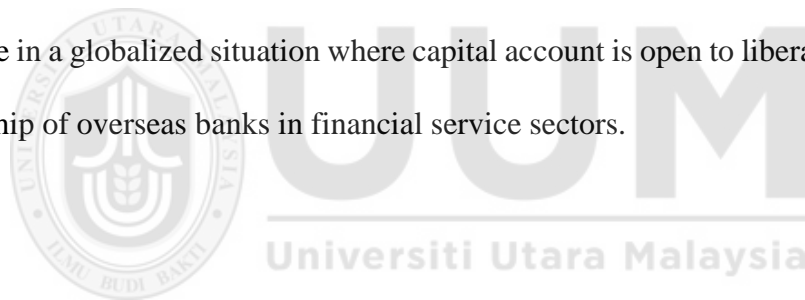
$$R^2 = 0.367$$

$$\text{Adjusted } R^2 = 0.334$$



4.7.3.1 Relationship between economic globalization (EG) and ROE

The result on the regression test shows that economic growth has negative relationship with the bank performance of eleven Islamic local banks in Malaysia. This indicates that 1-unit increment in economic globalization causes the bank performance of selected eleven local Islamic banks to decrease by 1.107 units with the assumption that all the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated economic globalization has significance relationship is accepted. In short, economic globalization has a significance relationship with ROE of eleven local Islamic banks in Malaysia. According to previous study by (Nguyen & Nguyen, 2018), the plausible reason for developing country such as Malaysia might have negative results because developing country considered rather weak and can barely compete in a globalized situation where capital account is open to liberalization and the ownership of overseas banks in financial service sectors.



4.7.3.2 Relationship between politic globalization (PG) and ROE

The result shown in the Ordinary Least Square model reflects that politic globalization has a negative relationship with the bank performance of eleven local Islamic banks in Malaysia. This indicate that 1unit increase in politic globalization will causes 0.636 decrease in bank performance of the selected eleven local Islamic banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated politic globalization has a significance relationship is accepted. As the result, politic globalization has a significance relationship with the ROE for selected eleven local Islamic banks in Malaysia. Previous study from Vietnam conducted by (Nguyen & Nguyen, 2018) also have the same negatively significant result towards bank performance. There is some possible reason on why the result is showing negative relationship towards ROE in Malaysia. Malaysia joined and signed many free trade agreements like other developing countries such as Vietnam, South Africa and many more. In fact, Malaysia had been a member of WTO since January 1st, 1995. This shows globalization already happen long time ago in Malaysia through politic globalization. These agreements bring plenty foreign banks to penetrate into Malaysian banking industry via politic globalization. Foreign banks have done a good job in advertising to extend their market share. Thus, this competitive pressure given by the foreign bank triggers the local bank to do the same to remain competitive in the market. Malaysian local banks adopted Basel capital system, restructure the bank system and updated their banking technologies to compete in the market. However, this indirectly increases the operating cost and gives negative impact to the bank performance.

4.7.3.3 Relationship between credit risk (LLP/TL) and ROE

The result shown in the Ordinary Least Square model reflects that credit risk has a negative relationship with the bank performance of eleven local Islamic banks in Malaysia. This indicate that 1 % increase in credit risk will causes 0.00386% decrease in bank performance of the selected eleven local Islamic banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated credit risk has a significance relationship is accepted. As the result, credit risk has a significance relationship with the ROE for selected eleven local Islamic banks in Malaysia. An accumulation of credit risk or unpaid loans will directly lower the profitability of the bank (Nguyen & Nguyen, 2018). Some of the studies such as (Ramlall, 2009), (Sohaib & Ahmad, 2013), (Sufian & Kamarudin, 2016) and Nguyen & Nguyen (2018) supports this result.

4.7.3.4 Relationship between bank size (LTA) and ROE

The result shown in the Ordinary Least Square model reflects that bank has a positive relationship with the bank performance of eleven local Islamic banks in Malaysia. This indicate that 1 % increase in bank size will causes 0.0042% increment in bank performance of the selected eleven local Islamic banks in Malaysia with the assumption of the other variables are remain constant. Based on the significance level 1%, the alternate hypothesis that stated bank size has a significance relationship is accepted. As the result, bank size has a significance relationship with the ROE for selected eleven local Islamic banks in Malaysia. The plausible reason is that the larger banks in Malaysia might have good facilities, technologies which gives a great advantage for banks to develop new products and this directly gives a positive impact towards bank performance. Many previous studies such as (Khrawish, 2011), (Sohaib & Ahmad, 2013) and (Sufian & Kamarudin, 2016) supports this result.

4.7.3.5 Relationship between social globalization (SG) and ROE

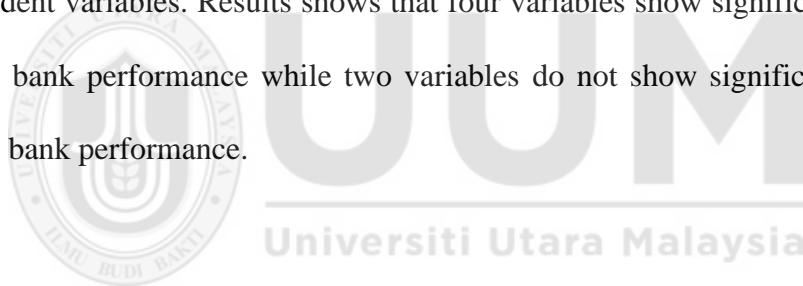
The result shown in the Ordinary Least Square model reflects that bank has a negative relationship with the bank performance of eleven local Islamic banks in Malaysia which has a coefficient value of -0.291. However, the significant level does not support the result and it exceeded 1%, 5% and even 10% which indicate insignificant value. Based on the significance level 1%, the alternate hypothesis that stated social globalization has a significance relationship is rejected. As the result, social globalization has an insignificance relationship with the ROE for selected eleven local Islamic banks in Malaysia. The study conducted by (Sohaib & Ahmad, 2013) also shows insignificant results.

4.7.3.6 Relationship between GDP (LGDP) and ROE

The result shown in the Ordinary Least Square model reflects that GDP has a negative relationship with the bank performance of eleven local Islamic banks in Malaysia which has a coefficient value of -0.101. However, the significant level does not support the result and it exceeded 1%, 5% and even 10% level which indicate insignificant value. Based on the significance level 1%, the alternate hypothesis that stated LGDP has a significance relationship is rejected. As the result, GDP has an insignificance relationship with the ROE for selected eleven local Islamic banks in Malaysia. (Combey & Togbenou, 2017) also shows insignificant results on GDP towards bank performance.

4.8 Concluding Remarks

This chapter shows the results and the findings of the analysis. The analysis starts with descriptive analysis where it explained the maximum values, minimum values, and the mean of each variables. It is then followed by correlation analysis where it shows the relationship between independent variables and dependent variables. Correlation analysis also shows the relationship among independent variables. Next, the test continued with diagnostics analysis where assumptions are made before the regression analysis is conducted. Four analyses are conducted under diagnostics test which is normality, linearity, multicollinearity and homogeneity. Last but not least, multiple regression test was conducted to find the relationship between dependent and independent variables. Results shows that four variables show significant relationship towards bank performance while two variables do not show significant relationship towards bank performance.



CHAPTER 5

CONCLUSION

5.1 Summary of Findings

5.1.1 Objective 1

There are numerous variables that influences the bank performance. One of the factor that influences the bank performance it inside the bank itself which is the bank characteristic or the internal factors. Test, period and determinations assumes an essential role for the effect of bank characteristic towards the bank performance (Nguyen and Nguyen, 2018). The primary goal of this research is with respect to the investigation of bank specific characteristic towards bank performance in Malaysia. In light of the first objective, the finding demonstrates that the both variables utilized which is the credit risk and the bank size demonstrates a huge connection with bank performance.

In light of the outcome in part 4, it demonstrates that credit risk gives a negative effect on the bank performance. The believable reason for this is that the higher the increment of the unpaid loans, the higher the exposure in getting high risk loans. The empirical discoveries clearly demonstrate that the local Islamic banks in Malaysia ought to never quit focusing and give more consideration in credit risk management. High risk loans have an extraordinary opportunity to transform into default and legitimately influence the bank performance. The higher bankruptcy cases in Malaysia have moreover supported the advancement of a sophisticated model in overseeing credit risk. Malaysian bank should look forward in giving loans depending on the best possible credit rating given by National bank of Malaysia or known as Bank Negara Malaysia (BNM). Going out on a limb by giving high risk loans may increase higher profit and

yet banks need to be mindful that higher risk and higher consequences too.

As indicated by the results in chapter 4, the research found that bank size demonstrates a positive connection towards bank performance. This demonstrates bigger banks give have a gigantic bit of leeway contrasted with littler banks to help Malaysian bank's performance. Nguyen and Nguyen, (2018), referenced that when the bank size increases, there will be likewise an increment on the bank profit. The possible reason is that the greater banks in Malaysia may have better structure, technology which gives an exceptional favored outlook for banks to develop new items and this will legitimately give a constructive outcome towards bank performance. For example, Maybank is the biggest bank in Malaysia that was the first to come up with internet banking which is Maybank2u contrasted with other banks. One of the likelihoods is that Maybank has a superior development and huge asset under research & development subsequently they are ready to invent high tech technology contrasted with other banks in Malaysia. Moreover, bigger banks in Malaysia are likely going to appreciate increasingly conspicuous market control by means of huge branch systems which will cut down expenses on their information sources. However, it is additionally fundamental for huge banks in Malaysia to take genuine on the potential liquidity issues and treats that they may confront. Khrawish, (2011), Sohaib and Ahmad, (2013) and Sufian and Kamarudin, (2016) are some of the studies that also support the result we gained in chapter 4.

5.1.2 Objective 2

The objective target of this research is in regards with the impacts of macroeconomics variable or external factors towards the bank performance. The sole variable used to satisfy the second objective is natural logarithm of gross domestic product (LGDP).

The results show that GDP has no huge impacts towards the bank performance. This demonstrates GDP doesn't demonstrate any positive or negative impacts on the performance of local Islamic banks in Malaysia. The conceivable reason is Malaysian local Islamic banks is sufficiently able to work autonomously as a slight expanding or diminishing in GDP doesn't demonstrate any effect towards the bank performance. Combey and Togbenou, (2017) likewise indicates insignificant outcome on GDP and bank performance.

5.1.3 Objective 3

The third objective of this study is to investigate the do globalization have any relationship with the Malaysian Islamic bank's performance. Based on the first objective, the finding indicates that out of three variables, two variables seem to show significant correlation with bank performance which is economic globalization and politic globalization.

The results in section 4 demonstrated that economic globalization demonstrates a negative significant impact towards the bank performance. The possible reason is that the local Malaysian banks may not be as skillful as foreign banks as the foreign banks usually have more extensive choice of experts and exposure of training for employees, the superior knowledge of foreign banks and capital investment innovation places them in a superior competitive position than domestic banks. Local banks in developing nation can be considered as weak and ineffectively where capital account is available to liberalization and the ownership of foreign banks in financial service sector. As indicated by Rijckeghem and Weder, (2000), there are banking overflow when globalization occurs.

In view of the outcome in section 4, politic globalization will in general have a

similar outcome as economic globalization which is it gave a negative effect towards the bank performance. Malaysia had also join and consented many unhindered commerce arrangements, for example, ASEAN-China Free Trade, ASEAN Free Trade Area, ASEAN-Korea Free Trade Area and some more. Malaysian had joined many free trade agreements; be that as it may, this gave a negative effect towards the bank performance in Malaysia. Malaysian local banks pursue guidelines and gave some effort to take up to follow international standards, for example, Basel capital system. These models are planned to update the governance and risk hedging. Free trade agreement will in general bring the overseas banks into domestic market to help the boost completions. Extraordinary challenge may give a decent quality to the financial business. In straightforward words, local banks need to invest more on advancement of their technology and resources to compete globally with overseas bank hence the cost to adapt to this changes will be very high. Thusly, the quality of banks may increase, however the operation cost is likewise to increase too. The effect of high operation costs will legitimately decrease the bank performance. (Nguyen and Nguyen, 2018) research in Vietnam on the effect of globalization towards bank performance in general have a similar outcome as this research.

Another variable used to accomplish this goal is social globalization. The discoveries show social globalization has no critical impacts towards the bank performance. This demonstrates financial development doesn't demonstrate any positive or negative impacts on the performance of local Islamic banks in Malaysia. (Sohaib and Ahmad, 2013) demonstrates the equivalent immaterial outcomes on social globalization towards the bank performance.

5.2 Contribution of the Study

5.2.1 Academic

This study covers the impact of globalization towards bank performance in Malaysia. It consists of eleven local Islamic banks for 5 years which is from the year 2013 till 2017. There are many research on globalization towards bank performance is conducted such as in China, Pakistan, South Africa, Vietnam and many more. However, a study on globalization using KOF index towards bank performance in Malaysia never been conducted by any researcher. Thus, this will be a great exposure and enormous value for any academicians and students of business, finance, banking and economics to obtain the information and data. These data and information can also be used for future research in Malaysia regarding globalization.

5.3 Limitations of the Study

There are few limitations found when conducting this study. One of the limitations are data availability. Some of the data on bank performance before the year 2013 is missing. This study supposed to use 10 years of data sample, however due to limited data availability, this study only uses 5 years period which is from the year 2013 till 2017. Some banks such as Hong Leong Islamic bank and Affin Islamic bank does not have a full data on return on assets (ROA). Few of the ROA data is missing and this brought the study to choose different bank performance proxy which is return on equity (ROE).

Another limitation found in this study are time constrain. This study intended to investigate ASEAN countries as some of the countries. However, due to the limitation of time, this study focused on Malaysia as it still gave a huge outcome in this study. Plus, the data for different ASEAN country is hard to find and it consumes a lot of time

to find it.

5.4 Recommendations and Future Research

In light of the discoveries in chapter 4, this research found that economic globalization and politic globalization gave a negative effect towards bank performance. It is excellent for local banks to get involves in competition between overseas banks as competition pressure from overseas banks will prompt improvement in banking industry efficiency. Be that as it may, a better technology and skillful employees will make the operating cost to increase which lead to decrease of bank performance among local banks. In this manner, it is advised for national banks to give some funds to these local banks at it may decrease the operating expense of a bank. Other than that, national bank can likewise give some incentive training for local banker to get a better exposure to adopt new supervision and risk management methods & technique.

As for future studies, it is recommended for researcher to include foreign banks to give out a better outcome. To have a better output to the bank performance in Malaysia, additional research can be taken by including more internal variables, for example, liquidity, network embeddedness, operating costs which is absent in this research. Other than that, inflation, concentration ratio and z-score can likewise be utilized for macroeconomics factors in future research. For a better result it is likewise prescribed to include more samples by increasing the period and including more nations in the research. As time passes by, this investigation may utilize a better propelled philosophy to check the robustness, such as replacing ROE with ROA. This research utilizes SPSS software to get result, it is moreover recommended to use a better software with much higher function in future as it may give a better result in future.

REFERENCES

- Abiola, I., & Olausi, A. S. (2014). The Impact of Credit Management on the Commercial Banks Performance in Nigeria. *International Journal of Management and Sustainability*, 295-306.
- Akhisar, I., Tunay, B., & Tunay, N. (2015). The Effects of Innovations on Bank Performance: The Case of Electronic Banking Services. *Journal of Social and Behavioral Sciences*, 369-375.
- Al Manaseer, M., Al-Dahiyat, M. A., Sartawi, I., & Al-Hindawi, R. M. (2012). The Impact of Corporate Governance on the Performance of Jordanian Banks. *European Journal of Scientific Journal*, 349-359.
- Alexiou, C., & Vogiazas, S. D. (2009). Determinants of bank profitability: Evidence from Greek banking sector. *Economics Annals*, 93-117.
- Alper, D., & Anbar, A. (2011). Bank Specific and Macroeconomic Determinants of Commercial Bank Profitability: Empirical Evidence from Turkey. *Business and Economics Research Journal*, 139-152.
- Athanasoglou, P., Brissimis, S., & Delis, M. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of International Financial Markets, Institution & Money*, 121-136.
- Berger, A. N., DeYoung, R., Genay, H., & Udell, G. F. (2000). Globalisation of Financial Institution: Evidence from Cross-Border Banking Performance. *Brookings-Wharton Papers on Financial Services*, 23-158.
- Boot, A. (1999). European lessons on consolidation in banking. *Journal of Banking and Finance*, 609-613.

- Burhonov, J. (2006). *Islamic Banking Operations of Commercial Banks Under Islamic Banking Scheme (IBS) of Malaysia: The Performance Analysis*.
Mahāwitthayālai Thammasāt: Faculty of Economics, Thammasat University, 2006.
- Cetorelli, N., & Goldberg, L. (2012). Banking Globalization and Monetary Transmission. *The Journal of Finance*, 1811-1843.
- Chowdhury, M. A., & Rasid, M. S. (2015). The determinants of the profitability of Islamic banks: a cross-sectional study from Asia and Africa. *International Journal of Business and Globalisation*, 375-388.
- Combey, A., & Togbenou, A. (2017). The Bank Sector Performance and Macroeconomics Environment: Empirical Evidence in Togo. *International Journal of Economics and Finance* , 180-188.
- Cooper, M. J., Jackson, W., & Patterson, G. A. (2003). Evidence of predictability in the cross-section of bank stock returns. *Journal of Banking & Finance*, 817- 850.
- Davydenko, A. (2011). Determinants of Bank Profitability in Ukraine. *Undegraduate Economic Review*, 168-182.
- Detragiache, E., & Gupta, P. (2004). Foreign Banks in Emerging Market Crises: Evidence from Malaysia. *IMF Working Paper*, 01-22.
- Detragiache, E., Tressel, T., & Gupta, P. (2008). Foreign Banks in Poor Countries: Theory and Evidence. *The Journal of Finance*, 2123-2160.

- Dietrich, A., & Wanzenried, G. (2011). Determinants of bank profitability before and during the crisis: Evidence from Switzerland. *Journal of International Financial Markets, Institutions and Money*, 307 - 327.
- Dreher, A. (2006). Does globalization affect growth? Evidence from a new index of globalization. *Applied Economics*, 1091 - 1110.
- Dunning, J. H. (1977). Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach. *The International Allocation of Economic Activity*, 395-418.
- Edirisuriya, P., & Gunasekarage, A. (2015). Bank diversification, performance and stock market response: Evidence from listed public banks in South Asian countries. *Journal of Asian Economics*, 69-85.
- Eichengreen, B., & Gibson, H. (2001). Greek Banking at the Dawn of the New Millennial. *CEPR Discussion Paper*, 369-382.
- Ekong, U. M. (2016). Globalization and the performance of commercial banks in Nigeria. *Journal of Globalization Studies*, 124-138.
- Focarelli, D., & Pozzolo, A. (2005). Where Do Banks Expand Abroad? An Empirical Analysis. *The Journal of Business from University of Chicago Press*, 2435-2464.
- Gâdoi, M. (2013). Advantages and Limitations of the Financial Ratios Used in the Financial Diagnosis of the Enterprise. *Scientific Bulletin - Economics Science*, 87 - 95.
- Garson, D. (2012). *Testing Statistical Assumptions*. North Carolina: Statistical Associates Publishing.

- Ghosh, A. (2016). How does banking sector globalization affect banking crisis?
Journal of Financial Stability, 70-82.
- Hadriche, M. (2015). Banks performance determinants: Comparative analysis
between conventional and Islamic banks from GCC countries. *International
Journal of Economics and Finance*, 169-177.
- Hailegebreal, D. (2016). Macroeconomic and Firm Specific Determinants of
Profitability of Insurance Industry in Ethiopia. *Global Journal of Management
and Business Research: C Finance*, 467-484.
- Hair, J., Money, A., Page, M., & Samouel, P. (2007). *Research Method for Business
Education + Training*. England: John Wiley and Sons.
- Hassan, M., & Bashir, A.-H. (2003). Determinants of Islamic Banking Profitability.
10th ERF Annual Conference (pp. 01-31). Morocco: ERF Paper.
- Horen, N. v., & Claessens, S. (2009). Being a Foreigner among Domestic Banks:
Asset or Liability? *IMF WORKING PAPERS*, 01-35.
- Kanwal, S., & Nadeem, M. (2013). The impact of macroeconomic variables on the
profitability of listed commercial banks in Pakistan. *European Journal of
Business and Social Sciences*, 186-201.
- Kaynak, E. (1986). Globalisation of Banks: An Integrative Statement. *International
Journal of Bank Marketing*, 03-08.
- Khrawish, H. A. (2011). Determinants of Commercial Banks Performance: Evidence
from Jordan. *International Research Journal of Finance and Economics*, 148 -
159.

- Mayer-Schönberger, V., & Hurley, D. (2000). Globalization of Communication. *Goverance in a Globalizing World*, 135-154.
- Miller, S., & Noulas, A. (1997). Portfolio mix and large bank profitability in the USA. *Applied Economics*, 505-512.
- Molyneux, P., & Iqbal, M. (2005). *Banking and Financial Systems in the Arab World*. New York: Palgrave Macmillan.
- Nguyen, H. T., & Nguyen, D. T. (2018). Globalisation and Bank Performance in Vietnam. *Malaysian Journal of Economic Studies*, 49-70.
- Phua, K. L., & Soo, K. S. (2004). *What's ahead for Malaysia? : Contemporary challenges and emerging trends*. Subang Jaya, Selangor: Pelanduks.
- Ramadan, I. Z., Kilani, Q., & Kaddumi, T. (2011). Determinants of bank profitability: Evidence from Jordan. *International Journal of Academic Research*, 180-191.
- Ramlall, I. (2009). Bank-Specific, Industry-Specific and Macroeconomic Determinants of Profitability in Taiwanese Banking System: Under Panel Data Estimation. *International Research Journal of Finance and Economics*, 160-167.
- Rasiah, D. (2010). Review of Literature and Theories on Determinants of Commercial Bank Profitability. *Journal of performance Management*, 23-49.
- Rijckeghem, C. V., & Weder, B. (2000). Spillovers through Banking Centers: A Panel Data Analysis. *IMF Working Paper*, 01-38.
- Robin, I., Salim, R., & Bloch, H. (2017). Cost efficiency in Bangladesh banking: does financial reform matter? *Journal of Applied Economics*, 891-904.

- Said, R. M., & Tumin, M. H. (2011). Performance and Financial Ratios of Commercial Banks in Malaysia and China. *International Review of Business Research Papers*, 157-169.
- Saleem, Z., & Rashid, K. (2011). Mobile Banking Adoption in Banking Sector of Pakistan. *Journal of Yasar University*, 3538-3560.
- Siddik, N. A., Sun, G., Kabiraj, S., Shanmugam, J., & Yanjuan, C. (2016). Impacts of e-banking on performance of banks in a developing economy: empirical evidence from Bangladesh. *Journal of Business Economics and Management*, 1066-1080.
- Smaoui, H., & Salah, I. B. (2009). Profitability of Islamic Banks in the GCC Region. *Journal of Business & Policy Research*, 16-44.
- Sohaib, M., & Ahmad, H. (2013). Impact of globalisation on the banking performance of Pakistan. *International Journal of Management Sciences and Business Research*, 84-91.
- Sufian, F., & Habibullah, M. S. (2012). Globalizations and bank performance in China. *Research in International Business and Finance*, 221-239.
- Sufian, F., & Kamarudin, F. (2016). The Impact of Globalization on the Performance of Banks in South Africa. *Review of International Business and Strategy*, 517-542.
- Sufian, F., Kamarudin, F., & Nassir, A. M. (2017). Globalisation and bank efficiency nexus: empirical evidence from the Malaysian banking sector. *An International Journal*, 1269-1290.

- Thakor, A., & Besanko, D. (1987). Competitive equilibrium in the credit market under asymmetric information. *Journal of Economic Theory*, 167-182.
- Tschoegl, A. (2004). Financial Crises and the Presence of Foreign Banks. *Systemic Financial Distress: Containment and Resolution*, 197-231.
- Zhang, J., Jiang, C., Qu, B., & Wang, P. (2013). Market concentration, risk-taking, and bank performance: Evidence from emerging economies. *International Review of Financial Analysis*, 149-157.
- Zhang, X., & Daly, K. (2014). The Impact of Bank-Specific and Macroeconomic Factors on China's Bank Performance. *The Chinese Economy*, 5-28.



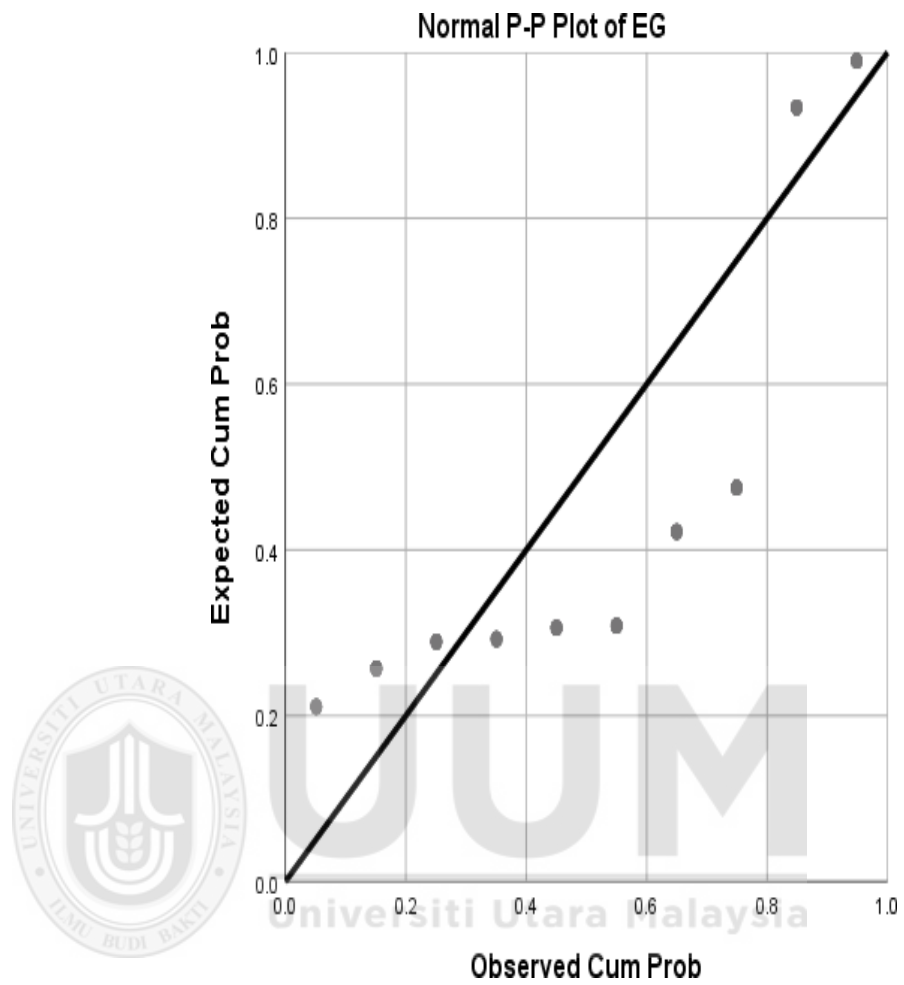
APPENDIX

Appendix 1. Indices and component weights of globalisation variables

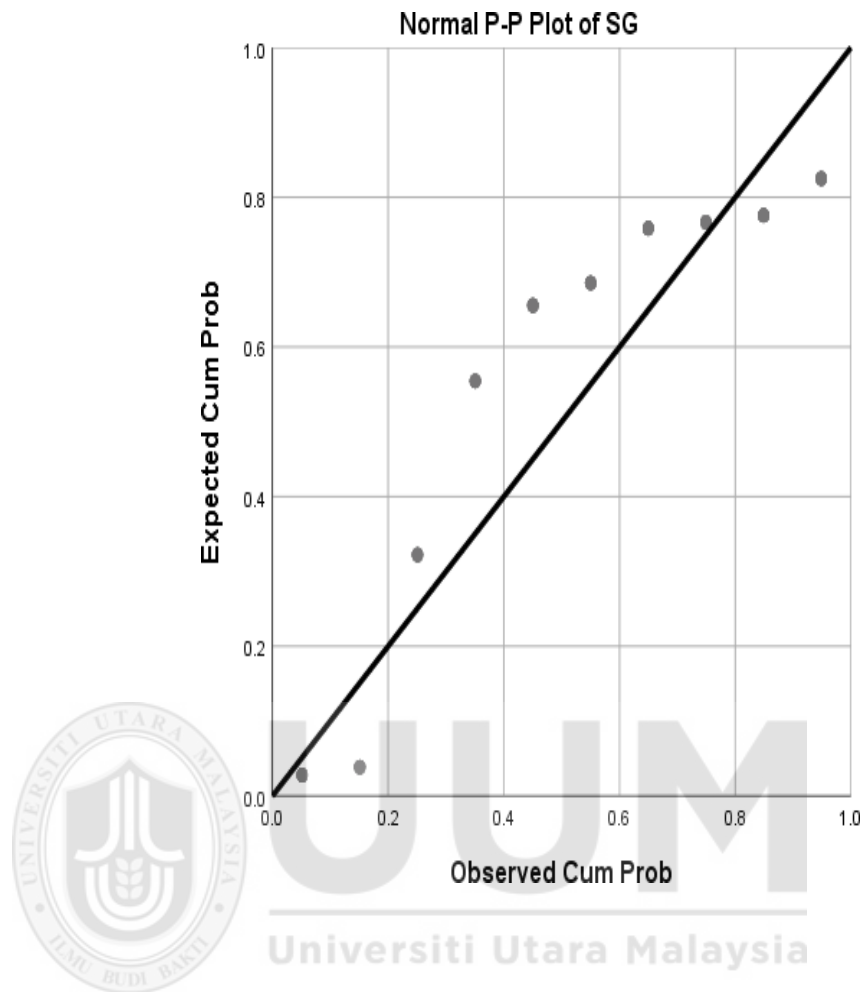
Indices and variables	Weights
<i>A Economic globalisation</i>	36%
i) Actual flows	50%
Trade (percent of GDP)	21%
Foreign direct investment, stocks (percent of GDP)	28%
Portfolio investment (percent of GDP)	24%
Income payments to foreign nationals (percent of GDP)	27%
ii) Restrictions	50%
Hidden import barriers	22%
Mean tariff rate	28%
Taxes on international trade (percent of current revenue)	26%
Capital account restrictions	24%
<i>B Social globalisation</i>	37%
i) Data on personal contact	33%
Telephone traffic	25%
Transfers (percent of GDP)	2%
International tourism	26%
Foreign population (percent of total population)	21%
International letters (per capita)	25%
ii) Data on information flows	36%
Internet users (per 1000 people)	37%
Television (per 1000 people)	39%
Trade in newspapers (percent of GDP)	25%
iii) Data on cultural proximity	32%
Number of McDonald's restaurants (per capita)	47%
Number of Ikea (per capita)	47%
Trade in books (percent of GDP)	6%
<i>C Political globalisation</i>	[27%]
Embassies in country	(25%)
Membership in international organisations	(27%)
Participation in U.N. Security Council missions	(22%)
International treaties	(26%)

Source: Dreher (2006).

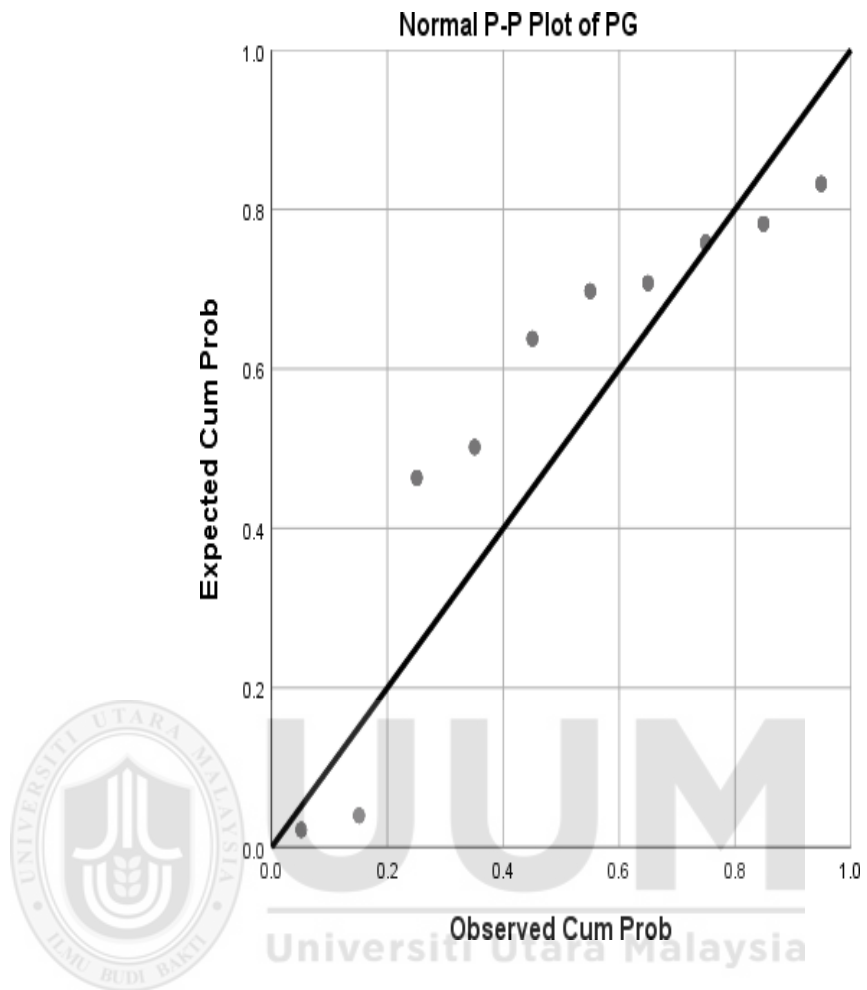
Appendix 2 – Normal P-P Plot of EG



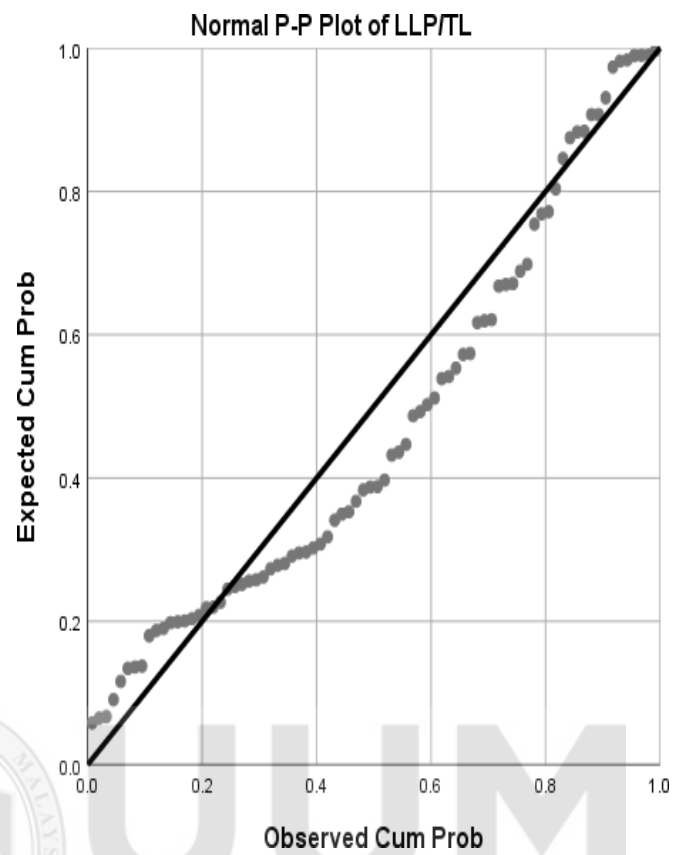
Appendix 3 – Normal P-P Plot SG



Appendix 4 – Normal P-P Plot PG



Appendix 5 – Normal P-P Plot LLP/TL



UUM
Universiti Utara Malaysia

Appendix 6 – Normal P-P Plot of LTA

